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UNITED STATES DISTRICT COURT DISTRICT OF OREGON

CENTURY INDEMNITY COMPANY, a Pennsylvania corporation,

Plaintiff,

v.

THE MARINE GROUP, LLC, a California limited liability company, as affiliated with NORTHWEST MARINE, INC., an inactive Oregon corporation, as affiliated with NORTHWEST MARINE IRON WORKS, an inactive Oregon corporation,

Defendants.

Case No. 3:08-CV-01375-AC

SECOND AMENDED ANSWER, AFFIRMATIVE DEFENSES, AND COUNTERCLAIMS TO COMPLAINT FOR DECLARATORY JUDGMENT AND THIRD-PARTY COMPLAINT

(JURY TRIAL REQUESTED)

Page 1 - Second Amended Answer, Affirmative Defenses, and Counterclaims to Complaint for Declaratory Judgment and Third-Party Complaint

THE MARINE GROUP, LLC, a California limited liability company, as affiliated with NORTHWEST MARINE, INC., an inactive Oregon corporation, as affiliated with NORTHWEST MARINE IRON WORKS, an inactive Oregon corporation; and BAE SYSTEMS SAN DIEGO SHIP REPAIR, INC., a California corporation,

Third-Party Plaintiffs,

v.

AGRICULTURAL INSURANCE COMPANY, and AGRICULTURAL EXCESS AND SURPLUS INSURANCE COMPANY, each an Ohio corporation; AMERICAN CENTENNIAL INSURANCE COMPANY, a Delaware corporation; CHICAGO INSURANCE COMPANY, an Illinois corporation; CONTINENTAL INSURANCE COMPANY, a Pennsylvania corporation; EMPLOYERS MUTUAL CASUALTY COMPANY, an Iowa corporation; FEDERAL INSURANCE COMPANY, an Indiana corporation; GRANITE STATE INSURANCE COMPANY, a Pennsylvania corporation; HARTFORD FIRE INSURANCE COMPANY, a Connecticut corporation; INDUSTRIAL INDEMNITY COMPANY, a Delaware corporation; INSURANCE COMPANY OF THE STATE OF PENNSYLVANIA, a New Jersey corporation; INSURANCE COMPANY OF NORTH AMERICA, a Pennsylvania corporation; CERTAIN UNDERWRITERS AT LLOYD'S. LONDON, and CERTAIN LONDON MARKET INSURANCE COMPANIES. each a foreign corporation; NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH PA, a Pennsylvania corporation; NEW ENGLAND

Page 2 - Second Amended Answer, Affirmative Defenses, and Counterclaims to Complaint for Declaratory Judgment and Third-Party Complaint

REINSURANCE CORPORATION, a Connecticut corporation; OLD REPUBLIC INSURANCE COMPANY, an Illinois corporation; PACIFIC MUTUAL MARINE OFFICE, INC., a New York corporation; ROYAL INDEMNITY COMPANY, a Delaware corporation; ST. PAUL FIRE AND MARINE INSURANCE COMPANY, individually and as successor to ST. PAUL MERCURY INDEMNITY COMPANY, a Minnesota corporation; TWIN CITY FIRE INSURANCE COMPANY, an Indiana corporation; WATER QUALITY INSURANCE SYNDICATE, a syndicate of foreign corporations; WEST COAST MARINE MANAGERS, INC., a New York corporation; AMERICAN MANUFACTURER'S MUTUAL INSURANCE COMPANY, an Illinois corporation; DANIELSON NATIONAL INSURANCE COMPANY, successor to MISSION NATIONAL INSURANCE COMPANY, a California corporation; FM GLOBAL INSURANCE AGENCY, successor to ARKWRIGHT BOSTON MANUFACTURER'S MUTUAL INSURANCE COMPANY, a Delaware corporation; STERLING CASUALTY INSURANCE COMPANY, successor to NATIONAL AUTOMOBILE AND CASUALTY COMPANY, a California corporation; and JOHN DOE INSURANCE COMPANIES,

Third-Party Defendants.

ANSWER

For their answer to the complaint for declaratory judgment of Century Indemnity Company, defendants The Marine Group, LLC (the "Marine Group"), a California limited liability company, Northwest Marine, Inc. ("Northwest Marine"), an inactive Oregon

Page 3 - Second Amended Answer, Affirmative Defenses, and Counterclaims to Complaint for Declaratory Judgment and Third-Party Complaint

corporation, and Northwest Marine Iron Works ("NWMIW"), an inactive Oregon corporation, admit, deny, and allege as follows:

1.

Defendants are without knowledge as to the truth or accuracy of the allegations of paragraph 1 and therefore deny them.

2.

Defendants admit that NWMIW is an inactive Oregon corporation that did business in the Portland Harbor area of Portland, Oregon. Defendants admit that Northwest Marine is an inactive Oregon corporation that did business in Portland, Oregon. Defendants further admit that the Marine Group is a California limited liability company. Except as admitted, defendants deny the remaining allegations of paragraph 2.

3.

Defendants admit that NWMIW conducted ship repair in Portland, Oregon, but are without knowledge and information sufficient to form a belief as to the truth or falsity of the remaining allegations of paragraph 3.

4.

In response to the allegations of paragraph 4, defendants admit that through a series of events, transactions, and operations of law, Southwest Marine, Inc., acquired NWMIW, that NWMIW changed its name to Northwest Marine, that Northwest Marine merged into Southwest Marine Inc., that BAE Systems San Diego Repair, Inc. ("BAE"), a California corporation with its principal place of business in San Diego, California, is the corporate successor of Southwest Marine, Inc. Accordingly, BAE is a corporate successor of NWMIW. Defendants further admit that the Marine Group succeeded, continued various business activities, and expressly assumed certain assets and liabilities of Northwest Marine, formerly known as

Page 4 - Second Amended Answer, Affirmative Defenses, and Counterclaims to Complaint for Declaratory Judgment and Third-Party Complaint

NWMIW. Defendants are without sufficient knowledge or information sufficient to form a belief as to the truth or falsity of the remaining allegations of paragraph 4.

5.

Defendants admit the allegations of paragraph 5.

6.

Defendants admit to having received multiple "suits" and demands from various parties and administrative agencies relating to activities conducted in the Portland Harbor Superfund Site, including the demands that are referenced by plaintiff in paragraph 6.

Defendants and BAE further admit and allege that they are participating in an ongoing effort to allocate liabilities for the Portland Harbor Superfund Site (the "Underlying Actions").

7.

In response to the allegations of paragraph 7, defendants admit that the Portland Harbor Superfund Site Natural Resource Damage ("NRD") Trustees (the "Trustees") demanded that defendants and BAE participate in funding a Phase I Injury Assessment for NRD liability relating to the Portland Harbor Superfund Site, that the Trustees have identified the Marine Group, NWMIW, and BAE as potentially responsible parties, and that defendants' and BAE's representatives attended various meetings and conducted other activities relating to the Trustees' demand.

8.

Defendants admit that they tendered to plaintiff and other insurance carriers the defense of the Underlying Actions and that they put plaintiff and other insurance carriers on notice of claims for indemnity coverage. Defendants admit that they seek coverage under the policies listed in paragraph 8, as well as under all primary, umbrella, and excise liability policies, known and unknown, issued or providing coverage to defendants.

Page 5 - Second Amended Answer, Affirmative Defenses, and Counterclaims to Complaint for Declaratory Judgment and Third-Party Complaint

Defendants are without knowledge and information as to what steps, if any, plaintiff has undertaken to locate portions of particular policies, and have no knowledge or information as to how successful or unsuccessful plaintiff has been in locating portions of the applicable policies. Therefore, defendants deny the allegations of paragraph 9.

10.

In response to the allegations of paragraphs 10-13, defendants contend that the language of applicable insurance policies will speak for itself and that these paragraphs therefore require no response.

11.

In response to paragraph 14, defendants incorporate by reference paragraphs 1-10 above.

12.

Defendants admit that plaintiff seeks declaratory rulings from the court concerning its obligations to defend or indemnify defendants and third-party plaintiffs.

13.

Defendants admit that an actual and justiciable controversy exists between plaintiff and defendants concerning the existence and nature of plaintiff's defense and indemnity obligations under applicable insurance policies relating to the Underlying Actions, but defendants contend that litigation of the indemnity issue is premature according to North Pacific Ins. Co. v. Wilson, 138 Or App 166, 174, 908 P2d 827 (1995).

14.

Defendants deny the allegations of paragraph 17.

15.

Paragraph 18 does not contain allegations and therefore requires no response.

Page 6 - Second Amended Answer, Affirmative Defenses, and Counterclaims to Complaint for Declaratory Judgment and Third-Party Complaint

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AFFIRMATIVE DEFENSES

16.

Plaintiff has failed to state a claim upon which relief may be granted.

17.

Plaintiff has failed to satisfy conditions precedent or subsequent on its part.

18.

Plaintiff's claims are barred by the doctrine of waiver or estoppel.

19.

Plaintiff's claims are barred by the doctrine of unclean hands.

COUNTERCLAIM AND THIRD-PARTY CLAIM OF BAE

(Breach of Contract)

20.

Defendants and BAE incorporate by reference the allegations of paragraphs 1-19 above.

21.

Defendants and BAE have satisfied all contractual conditions precedent on their

22.

part.

Plaintiff has breached its contractual obligations in failing to assume defense of the Underlying Actions.

23.

Defendants and BAE are entitled to attorney fees under ORS 742.061.

SECOND CLAIM

(Declaratory Relief)

24.

Defendants and BAE incorporate by reference the allegations of paragraphs 1-23 above.

25.

In accordance with 28 USC § 2201, defendants and BAE seek a ruling from this court providing that plaintiff has a duty to defend defendants and/or BAE in the Underlying Actions and in future related actions.

26.

Defendants and BAE further seek a ruling that, at the appropriate juncture, plaintiff has a duty to indemnify defendants and/or BAE for damages that may be asserted or settlements that may be reached relating to the Underlying Actions and future related claims.

27.

Defendants and BAE reserve the right to amend the complaint, in whole or in part, as they obtain additional facts from the investigation or discovery.

THIRD-PARTY COMPLAINT

Third-party plaintiffs, Marine Group, Northwest Marine, NWMIW, and BAE allege as follows:

Parties

Defendants and Third-Party Plaintiffs

28.

The Marine Group is a California limited liability company. Northwest Marine is an inactive Oregon corporation. NWMIW is an inactive Oregon corporation. BAE is a California corporation. Third-party plaintiffs allege as follows:

Page 8 - Second Amended Answer, Affirmative Defenses, and Counterclaims to Complaint for Declaratory Judgment and Third-Party Complaint

Third-party plaintiffs incorporate by reference the allegations of paragraphs 1-28.

30.

Through a series of events, transactions, and operations of law, Southwest Marine, Inc., acquired NWMIW, that NWMIW changed its name to Northwest Marine, that Northwest Marine merged into Southwest Marine Inc., that BAE, a California corporation with its principal place of business in San Diego, California, is the corporate successor of Southwest Marine, Inc. Accordingly, BAE is a corporate successor of Northwest Marine, formerly known as NWMIW. The Marine Group succeeded, continued various business activities, and expressly assumed certain assets and liabilities of Northwest Marine, formerly known as NWMIW.

Insurance Companies

31.

Third-party defendant Agricultural Insurance Company, now a part of Great American Insurance Group of the American Financial Group (collectively, "Great American"), is duly organized under the laws of the state of Ohio, with its principal place of business in the state of Ohio. Great American is authorized to do business in the state of Oregon.

32.

Third-party defendant Agricultural Excess and Surplus Insurance Company, now a part of Great American Insurance Group of the American Financial Group (collectively, "Great American"), is duly organized under the laws of the state of Ohio, with its principal place of business in the state of Ohio. Great American is authorized to do business in the state of Oregon.

Page 9 - Second Amended Answer, Affirmative Defenses, and Counterclaims to Complaint for Declaratory Judgment and Third-Party Complaint

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Third-party defendant American Centennial Insurance Company is duly organized under the laws of the state of Delaware, with its principal place of business in the state of Delaware. American Centennial Insurance is authorized to do business in the state of Oregon.

34.

Plaintiff, Century Indemnity Company, now a part of the ACE Group of Companies, is duly organized under the laws of the state of Pennsylvania, with its principal place of business in the state of Pennsylvania. Plaintiff is authorized to do business in the state of Oregon.

35.

Third-party defendant Chicago Insurance Company, now a part of the Allianz Group of Companies, is duly organized under the laws of the state of Illinois, with its principal place of business in the state of California. Chicago Insurance is authorized to do business in the state of Oregon.

36.

Third-party defendant, Continental Insurance Company, now a part of the CNA Group of Companies, is duly organized under the laws of the state of Pennsylvania, with its principal place of business in the state of Illinois. Continental Insurance is authorized to do business in the state of Oregon.

37.

Third-party defendant Employers Mutual Casualty Company is duly organized under the laws of the state of Iowa, with its principal place of business in the state of Iowa. Employers is authorized to do business in the state of Oregon.

Page 10 - Second Amended Answer, Affirmative Defenses, and Counterclaims to Complaint for Declaratory Judgment and Third-Party Complaint

Third-party defendant Federal Insurance Company, now a part of the Chubb Group of Insurance Companies (collectively, "Chubb"), is duly organized under the laws of the state of Indiana, with its principal place of business in the state of New Jersey. Chubb is authorized to do business in the state of Oregon.

39.

Third-party defendant Granite State Insurance Company, now a part of AIG, is duly organized under the laws of the state of Pennsylvania, with its principal place of business in the state of New York. Granite State is authorized to do business in the state of Oregon.

40.

Third-party defendant Hartford Fire Insurance Company is duly organized under the laws of the state of Connecticut, with its principal place of business in the state of Connecticut. Hartford is authorized to do business in the state of Oregon.

41.

Third-party defendant Industrial Indemnity Company, now a part of U.S. Fire Insurance Company, is duly organized under the laws of the state of Delaware, with its principal place of business in the state of New Jersey.

42.

Third-party defendant Insurance Company of the State of Pennsylvania ("ICSP"), now a part of AIG, is duly organized under the laws of the state of New Jersey, with its principal place of business in the state of New York. ICSP is authorized to do business in the state of Oregon.

43.

Third-party defendant Insurance Company of North America ("ICNA"), now a part of the ACE Group of Insurance Companies (collectively, "ACE"), is duly organized under

Page 11 - Second Amended Answer, Affirmative Defenses, and Counterclaims to Complaint for Declaratory Judgment and Third-Party Complaint

the laws of the state of Pennsylvania, with its principal place of business in the state of Pennsylvania. ACE is authorized to do business in the state of Oregon.

44

Third-party defendants Certain Underwriters at Lloyd's, London ("Lloyd's"), and Certain London Market Insurance Companies (collectively, "LMI"), are corporations or other business entities existing under the laws of a jurisdiction within the United States or a foreign-country jurisdiction or are individual underwriters at Lloyd's, each of which has, along with certain other defendants, consented to the jurisdiction of this court and upon information and belief designated the firm of Mendes & Mount, 750 Seventh Avenue, New York,

New York 10019, as agent for purposes of receiving service of process issued by this court. LMI issued insurance policies to third-party plaintiffs and/or their predecessors which provided coverage for the Underlying Actions and future related actions. Known policy numbers and policy periods are listed in Exhibit 1 to this third-party complaint. Certain of these policies are primary and provide defense insurance coverage to third-party plaintiffs in connection with the Underlying Actions and future related actions.

45.

Third-party defendant National Union Fire Insurance Company of Pittsburgh PA, now a part of AIG, is domiciled and duly organized under the laws of the state of Pennsylvania, with its principal place of business in the state of New York. National Union Fire is authorized to do business in the state of Oregon.

46.

Third-party defendant New England Reinsurance Corporation is duly organized under the laws of the state of Connecticut, with its principal place of business in the state of Massachusetts. New England is authorized to do business in the state of Oregon.

Third-party defendant Old Republic Insurance Company is duly organized under the laws of the state of Illinois, with its principal place of business in the state of Illinois. Old Republic is authorized to do business in the state of Oregon.

48.

Third-party defendant Pacific Mutual Marine Office, Inc., is now a part of NYMagic, Inc., which is duly organized under the laws of the state of New York, with its principal place of business in the state of New York.

49.

Third-party defendant Royal Indemnity Company, now known as Arrowood Indemnity Company (collectively, "Arrowood"), is duly organized under the laws of the state of Delaware, with its principal place of business in the state of North Carolina. Arrowood is authorized to do business in the state of Oregon.

50.

Third-party defendant St. Paul Fire and Marine Insurance Company, individually and as successor to St. Paul Mercury Indemnity Company (collectively, "St. Paul), is a corporation duly organized under the laws of the state of Minnesota, with its principal place of business in St. Paul, Minnesota. St. Paul is authorized to do business and is doing insurance business in the state of Oregon.

51.

Third-party defendant Twin City Fire Insurance Company, now a part of Hartford Financial Services Group, is duly organized under the laws of the state of Indiana, with its principal place of business in the state of Connecticut. Twin City Fire is authorized to do business in the state of Oregon.

Page 13 - Second Amended Answer, Affirmative Defenses, and Counterclaims to Complaint for Declaratory Judgment and Third-Party Complaint

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Third-party defendant Water Quality Insurance Syndicate is an unincorporated association of insurance companies that are authorized to do business in the United States. Its principal place of business is in the state of New York. Its subscribers include, but are not

limited to, ICNA, St. Paul, and Continental Insurance Company.

53.

Third-party defendant West Coast Marine Managers, Inc., is now a part of the Navigators Group, which is duly organized under the laws of the state of New York, with its principal place of business in the state of New York.

54.

Third-party defendant American Manufacturer's Mutual Insurance Company is duly organized under the laws of the state of Illinois, with its principal place of business in the state of Illinois. American Manufacturer's is authorized to do business in the state of Oregon.

55.

Third-party defendant Danielson National Insurance Company, which is the successor to Mission National Insurance Company, is duly organized under the laws of the state of California, with its principal place of business in the state of California. Danielson National is authorized to do business in the state of Oregon.

56.

Third-party defendant FM Global Insurance Agency, which is the successor to Arkwright Boston Manufacturer's Mutual Insurance Company, is duly organized under the laws of the state of Delaware, with its principal place of business in the state of Texas. FM Global is authorized to do business in the state of Oregon.

Page 14 - Second Amended Answer, Affirmative Defenses, and Counterclaims to Complaint for Declaratory Judgment and Third-Party Complaint

Third-party defendant Sterling Casualty Insurance Company, which is the successor to National Automobile and Casualty Company, is duly organized under the laws of the state of California, with its principal place of business in the state of California.

58.

Third-party defendants John Doe Insurance Companies (the "John Doe defendants") are defendants presently unknown to third-party plaintiffs but sold general liability insurance policies to third-party plaintiffs and are therefore responsible for defense and/or indemnity obligations in connection with the Underlying Actions. When additional information specifically identifying the John Doe defendants becomes known, third-party plaintiffs will be in a position to amend the complaint to include such information.

59.

Jurisdiction and venue are proper because each of the defendants is or was licensed to do business in Oregon, insure risks in Oregon, transact business in Oregon, or supply insurance services in Oregon. In addition, the site with respect to which contamination is claimed in the underlying suits (the Portland Harbor Superfund Site, the Lower Willamette River, and other related areas) is located in Oregon.

60.

Third-party defendants issued insurance policies to third-party plaintiffs and/or their predecessors which provided coverage for the Underlying Actions and future related actions. Each third-party defendant, other than the John Doe defendants, is listed, along with known policy numbers and policy periods, in Exhibit 1 to this third-party complaint. Third-party plaintiffs are entitled to have the insurance policies interpreted in a reasonable manner that maximizes third-party plaintiffs' insurance coverage for the Underlying Actions. Upon information and belief, all premiums for each insurance policy have been paid. All other

Page 15 - Second Amended Answer, Affirmative Defenses, and Counterclaims to Complaint for Declaratory Judgment and Third-Party Complaint

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pertinent conditions and requirements under the respective insurance policies have been satisfied, waived, or excused. Third-party plaintiffs have provided timely notice of the Underlying Actions to all third-party defendants, their agents, or their representatives, or this pleading shall constitute such notice.

FIRST CLAIM FOR RELIEF

(<u>Declaratory Judgment</u>)

61.

Third-party plaintiffs incorporate the allegations of paragraphs 1-60 above.

62.

Third-party plaintiffs ask that this court determine the rights and liabilities of the parties with respect to coverage under insurance policies for the Underlying Actions, and additional related claims that will be asserted in the future, including duties of defense and/or indemnity.

63.

Third-party plaintiffs have incurred, and will continue to incur, substantial costs and expenses defending the Underlying Actions, including related claims that will be asserted in the future. Third-party plaintiffs are also at risk of incurring liabilities for NRD and other damages in connection with the Portland Harbor Superfund Site. To date, in excess of \$50,000,000 has been spent investigating the extent of contamination in the Portland Harbor Superfund Site. It is probable that the total costs incurred in completing the investigation, conducting mediation, and addressing NRD will exceed \$500,000,000. Under demand of the United States Environmental Protection Agency ("EPA"), a group of potentially responsible parties, including the Marine Group and BAE, are participating in an allocation proceeding that is intended to allocate among the parties without litigation, and achieve settlement with EPA and/or the Oregon Department of Environmental Quality and/or other Oregon state and federal

Page 16 - Second Amended Answer, Affirmative Defenses, and Counterclaims to Complaint for Declaratory Judgment and Third-Party Complaint

agencies, some or all of the costs that will be incurred in addressing contamination in the Portland Harbor Superfund Site.

64.

Third-party defendants' insurance policies provide defense and indemnity insurance coverage to third-party plaintiffs in connection with the Underlying Actions, including related claims that will be asserted in the future.

65.

Certain third-party defendants have denied, or will deny, any liability under the insurance policies for defense and indemnity in connection with the Underlying Actions, including related claims that will be asserted in the future.

66.

By reason of the foregoing, an actual and justiciable controversy exists between the parties under 28 USC § 2201 et seq. Third-party plaintiffs are entitled to and seek a declaration by this court as to the rights and obligations of the parties with respect to the Underlying Actions and anticipated future claims in connection with the Portland Harbor Superfund Site, including the defense and/or future indemnity obligations of third-party defendants. Nevertheless, third-party plaintiffs allege that litigation of the duties to indemnify are premature according to North Pacific Ins. Co. v. Wilson, 138 Or App 166, 174, 908 P2d 827 (1995). This court should retain jurisdiction for the purpose of issuing rulings at the appropriate juncture concerning the duty to indemnify, and of enforcing any declaratory relief granted to third-party plaintiffs.

67.

Third-party plaintiffs are entitled to attorney fees under ORS 742.061.

SECOND CLAIM FOR RELIEF

(Breach of Contract)

68.

Third-party plaintiffs reallege and reincorporate the allegations of paragraphs 1-67 above.

69.

Third-party plaintiffs have incurred, and will continue to incur, substantial costs and expenses for defending the Underlying Actions, and in addressing anticipated related future claims. Third-party plaintiffs are at risk of incurring liabilities for natural resource and other damages in connection with the Underlying Actions and anticipated future claims.

70.

Third-party plaintiffs have provided timely notice of the Underlying Actions to all third-party defendants, their agents, or their representatives. Notice was provided to LMI on January 27, 2009, when this third-party complaint was originally filed with the court and on August 31, 2009, when third-party plaintiffs tendered the "suit documents" to LMI. A copy of the August 31, 2009, tender is attached as Exhibit 2 to this third-party complaint.

71.

Third-party defendants have breached, and third-party plaintiffs anticipate that third-party defendants will continue to breach, their respective obligations for claims for insurance coverage under the insurance policies, in wrongfully refusing to provide coverage for costs of defense or indemnity. LMI has breached its contractual obligations by refusing to provide defense coverage and third-party plaintiffs reasonably believe it will continue to do so.

72.

As a result of third-party defendants' actual and prospective or anticipated breaches of their contractual obligations under the insurance policies, third-party defendants are

Page 18 - Second Amended Answer, Affirmative Defenses, and Counterclaims to Complaint for Declaratory Judgment and Third-Party Complaint

liable, and will be liable in the future, for costs of defense or indemnity, together with interest thereon.

73.

Third-party plaintiffs are entitled to reasonable attorney fees under ORS 742.061.

PRAYER FOR RELIEF

WHEREFORE, defendants and third-party plaintiffs pray for judgment as

follows:

- 1. dismissing plaintiff's claims with prejudice;
- 2. ruling that plaintiff has breached its contractual obligations;
- 3. declaring that plaintiff owes or will owe costs of defense or indemnity;
- 4. declaring the rights, duties, obligations, status, and other legal relations of the parties, including a declaration that third-party defendants' policies contain duties to defend and duties to indemnify in the Underlying Actions and future related claims;
- 5. for defendants' and third-party plaintiffs' costs and disbursements incurred

herein;

- 6. for defendants' and third-party plaintiffs' attorney fees under ORS 742.061; and
- 7. for other relief that the court deems just, equitable, and proper under the circumstances.

DEMAND FOR JURY TRIAL

Defendants and third-party plaintiffs hereby demand trial by jury.

DATED this 1st day of February, 2010.

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Certificate of Service Page 3 -

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×	CM/ECF system transmission.
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Page 5 - Certificate of Service

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×	First-class mail, postage prepaid.
	Hand-delivery.
	Overnight courier, delivery prepaid.
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